



**DEPARTMENT OF INSURANCE
STATE OF ARIZONA**
Financial Affairs Division - Compliance Section
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7269
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**AUDITED FINANCIAL REPORT
INSTRUCTIONS AND GUIDELINES FOR
STANDARDIZED ORGANIZATIONAL HARDSHIP EXEMPTION
AND
SAMPLE AFFIDAVIT**

General Instructions

An insurer required to file audited financial reports may apply to the Director for an exemption from this requirement if compliance with this requirement would constitute a financial or organizational hardship upon the insurer.

Guidelines for a Standardized Organizational Hardship Exemption are shown on Page 2.

These Guidelines, and any exemptions granted pursuant to them, apply only to reports and filings for the calendar year shown above.

An insurer that meets the criteria set forth in the guidelines may apply for an exemption by completing the requirements below.

DO NOT use this affidavit if you qualify for the automation exemption. See Form E-AFR.GFE for instructions.

Filing Requirements for Exemption

An application for an Organizational Hardship Exemption from filing audited financial reports which is made pursuant to the Standardized Organizational Hardship Exemption guidelines set forth herein by this Department shall be comprised of:

1. A letter, signed by an officer of the company who is authorized to sign the Annual Statement, requesting an Organizational Hardship Exemption; and
2. A properly completed and executed affidavit. The affidavit shall be in a form prescribed by the Department (see sample pages 3 and 4) and shall be signed by an officer of the company who is authorized to sign the Annual Statement.

DUE DATE

The application must be filed prior to filing the Annual Statement and not later than March 31st. **DELINQUENT APPLICATIONS WILL NOT BE CONSIDERED.**

All applications for Organizational Hardship Exemptions should be directed to:

**Rose McNabb, Compliance Section Supervisor
Financial Affairs Division
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7269**

Documentation Requirements

The insurer shall maintain documentation to support the statements made in the affidavit and shall produce such documentation upon request.

Approval Process

A complete and proper application shall be deemed approved upon receipt by the Department, unless the Department notifies the company to the contrary. An insurer desiring acknowledgment of receipt by the Department may enclose a duplicate of the affidavit along with a self-addressed postage prepaid envelope.

The Department may withdraw or rescind approval of an exemption if the insurer does not meet all requirements.

Other Organizational or Financial Hardships

An insurer that does not meet the criteria set forth in these guidelines may still apply for an exemption by submitting to the Department a letter requesting an organizational or financial hardship exemption and an affidavit signed by an officer of the company avowing to the facts which create the hardship.

Applications from insurers that do not claim to meet the criteria set forth in the guidelines shall be subject to review and approval by the Department. The Department shall advise the insurer as to whether the application is granted or denied.

GUIDELINES FOR STANDARDIZED ORGANIZATIONAL HARDSHIP EXEMPTION

The following are the cumulative criteria for granting organizational hardship exemptions from filing requirements for audited financial statements for Arizona domestic reinsurers¹.

1. The insurer is a reinsurer holding a certificate of authority in the State of Arizona only; and
2. The reinsurer complies with the provisions of items 3 through 6 with respect to each reinsurance contract and ceding insurer; and
3. A trust account or custodial account is established with a qualified financial institution located in the United States which is organized under the laws of the United States or any State of the United States that has been granted authority to operate with fiduciary powers, in which assets equal to the net reserve credit taken by the ceding insurer for the business ceded are deposited or, in the alternative, the reinsurance agreement provides that funds will be withheld by the ceding insurer; and
4. The trust account or custodial account requires only the ceding insurer's (direct writer's) signature in order to withdraw funds and/or to pay claims, provided however, that with the approval of the ceding insurer, funds may be withdrawn by the assuming reinsurer providing that, after the withdrawal, the market value of assets in the trust account or custodial account shall be no less than 102 percent of the net reserves for the business ceded; and
5. The reinsurer has obtained from the bank, as custodian or trustee, a verification and listing of assets held in a trust or custodial account for the purposes described in A.R.S. § 20-1092 as of the calendar year end for which the exemption is requested, and
6. The reinsurer has not assumed gross premiums of more than five million dollars in the calendar year for which the exemption is requested and is not otherwise required to file an audited financial report on the basis of direct premiums.

¹ For purposes of these Guidelines, a "reinsurer" shall mean an insurer having direct premiums written of less than \$1,000,000 and assumed premiums pursuant to contracts and/or treaties of reinsurance of \$1,000,000 or more.

ARIZONA DEPARTMENT OF INSURANCE
STANDARDIZED ORGANIZATIONAL HARDSHIP EXEMPTION
SAMPLE
AFFIDAVIT

State of _____)
) ss.
County of _____)

I, _____, being first duly sworn, upon my oath depose and say:

1. I am the _____ of _____, whose NAIC number is _____ and am duly authorized to execute this affidavit on its behalf; and

2. _____ is a reinsurer holding a certificate of authority in the State of Arizona only; and

3. _____ complies with the provisions of items 4 through 7 of this affidavit with respect to each reinsurance contract and ceding insurer; and

4. A trust account or custodial account is established with a qualified financial institution located in the United States which is organized under the laws of the United States or any State of the United States that has been granted authority to operate with Fiduciary power, in which assets equal to the net reserve credit taken by the ceding insurer for the business ceded are deposited or, in the alternative, the reinsurance agreement provides that funds will be withheld by the ceding insurer; and

5. The trust account or custodial account requires only the ceding insurer's (direct writer's) signature in order to withdraw funds and/or to pay claims, provided however, that with the approval of the ceding insurer, funds may be withdrawn by the assuming reinsurer providing that, after the withdrawal, the market value of assets in the trust account or custodial account shall be no less than 102 percent of the net reserves for the business ceded; and

6. _____ has obtained from the bank, as custodian or trustee, a verification and listing of assets held in a trust or custodial account for the purposes described in A.R.S. § 20-1092 as of the most recent calendar year end; and

7. _____ has not assumed gross premiums of more than five million dollars in the _____ calendar year and is not otherwise required to file an audited financial report on the basis of direct premiums.

Further affiant sayeth not.

(name)

Subscribed and sworn to before me this _____ day of _____, 20_____.

Stamp or seal

Notary Public

My commission expires:

(date)